

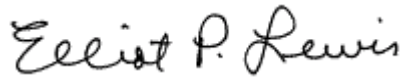
**U.S. DEPARTMENT OF LABOR
EVALUATION OF GRANT CLOSEOUT
PRACTICES APPLIED TO
JOB TRAINING PARTNERSHIP ACT GRANTS**

GRANTS AWARDED TO THE STATE OF CALIFORNIA

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

JULY 1, 1997 THROUGH JUNE 30, 2000

R. Navarro & Associates, Inc. prepared this report under contract to the U.S. Department of Labor, Office of Inspector General, and by acceptance it becomes a report of the Office of Inspector General.



Assistant Inspector General for Audit
U.S. Department of Labor

Report No.: 04-03-019-03-340
Date Issued: May 5, 2003

R. NAVARRO & ASSOCIATES, INC.

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ACRONYMS

CFR	Code of Federal Regulations
DOL	U.S. Department of Labor
ETA	Employment and Training Administration
FSR	Financial Status Report
FY	Fiscal Year
JTPA	Job Training Partnership Act
OIG	Office of the Inspector General
PY	Program Year
SFY	States Fiscal Year
SEFA	Schedule of Expenditures of Federal Awards
WIA	Workforce Investment Act

Mr. Elliot P. Lewis
Assistant Inspector General for Audit
Office of Inspector General
U.S. Department of Labor

***INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES***

We have performed the procedures enumerated in the "Procedures and Findings" section of this report. The U.S. Department of Labor (DOL), Office of Inspector General (OIG), agreed to these procedures. We completed the procedures solely to assist OIG in evaluating the State of California's closeout practices for Job Training Partnership Act (JTPA) grants awarded by the DOL Employment and Training Administration (ETA) from July 1, 1997 through June 30, 2000.

Management of the State of California is responsible for closing JTPA grants in accordance with applicable regulations and requirements established by ETA. ETA is responsible for processing and certifying grant closure, and recording final obligation, expenditure and payment information in DOL's general ledger.

This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of your office as the specified user of the report. Consequently, we make no representation regarding the sufficiency of the procedures performed either for the purpose for which this report has been requested or for any other purpose.

The results of our procedures are described in the "Procedures and Findings" section of this report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accompanying information obtained from the respective entities. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the DOL, OIG, and is not intended to be, and should not be used, by anyone other than the specified party.

June 24, 2002

R. Navarro & Associates, Inc.

SUMMARY OF FINDINGS

The State of California submitted its Job Training Partnership Act (JTPA) closeout package to the U.S. Department of Labor (DOL), Employment and Training Administration (ETA) on June 29, 2001, after requesting and receiving an extension through June 30, 2001. We identified the final JTPA expenditures reported on the final closeout report, and found that the expenditures reported reconciled to the State's accounting records. In addition, the final expenditures reported were reasonable based on data previously reported to ETA.

The JTPA program was audited as a major program in the State's single audits for State Fiscal Year (SFY) 1999 and SFY 2000. The SFY 2000 single audit report included two unresolved findings pertaining to the JTPA program. In the first finding, the auditors reported that the State's general ledger system did not identify expenditures by Federal program, consequently, the Schedule of Expenditures of Federal Awards was not prepared as required by Office of Management and Budget, Circular A-133. Rather, the State prepared a Schedule of Federal Assistance that reflected cash receipts by Federal program. This issue was included as a reportable condition and also as a matter of emphasis in the auditor's supplemental information report. In another finding, the auditors reported that certain State level costs were allocated to Federal programs based on estimates rather than on actual costs incurred.

We visited two subrecipients, and found that final expenditures reported to the State reconciled to the subrecipients' accounting records.

State of California's Response

The California Employment and Development Department (EDD) provided a written response to our draft report, dated March 10, 2003, which is included in its entirety at Exhibit I. In general, California agreed with the information presented in the report. However, certain comments were provided regarding the open single audit findings presented in this report. With respect to the finding that the State cannot generate a Schedule of Expenditures of Federal Awards, EDD commented, "This is a statewide issue that the auditors discussed with the Department of Finance, which will address this issue in future system enhancements". With respect to the finding that EDD lacked documentation supporting certain payroll and operating cost allocations, EDD commented that costs charged to allocation are considered to be direct, actual charges and that no adjustments were necessary to the JTPA costs reported on the closeout.

Independent Accountants' Comments

Our procedures were limited to presenting findings reported in the single audit reports that the single auditors consider to be unresolved. We understand that management's perspective for these findings may differ from that of the single auditors.

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Background

The JTPA was enacted in 1982 to provide job training programs which would afford disadvantaged youth and adults with the training necessary to obtain productive employment. The JTPA program was repealed on June 30, 2000, when ETA implemented a successor program, authorized by the Workforce Investment Act. The closeout of active JTPA grants began in July 1999, with final closeouts due no later than December 31, 2000. Unspent funds from the PY 1998 and PY 1999 JTPA State grants were authorized for transition into the WIA program.

All JTPA closeout information is sent to the DOL, ETA, Office of Grant and Contract Management, Division of Resolution and Appeals. According to 20 CFR, Part 627.485, JTPA grants should normally have been closed within 90 days after the time limitation for expenditure of JTPA funds. For PY 1997 grants, the 90-day limitation expired September 30, 2000. However, in certain instances, ETA extended the reporting beyond that specified in the program regulations. According to instructions set forth by ETA in the *JTPA Financial Closeout Technical Assistance Guide*, final JTPA financial reports for PY 1998 and PY 1999 grants should have been submitted no later than December 31, 2000.

Objectives, Scope and Methodology

In general, our procedures were designed to determine if: the State of California closed its JTPA grants on a timely basis in accordance with ETA instructions; amounts reported in the closeout packages and/or the final cost reports were reasonable and supported by the State's and subrecipients' accounting records; and there were unresolved audit findings pertaining to JTPA awards.

Our agreed-upon procedures include the JTPA funds awarded to the State of California for PYs 1997, 1998 and 1999, and FYs 1997 and 1998. Procedures were applied to grant activities reported by the State and two subrecipients, City of Los Angeles and the San Diego Workforce Partnership Inc., on final closeout reports.

PROCEDURES AND FINDINGS

1. Identify the State’s JTPA grants to be included in the scope of these procedures, and the obligations and final reported expenditures related to each.

The JTPA grants awarded to the State and included in the scope of these procedures are as follows.

Year and Title	Federal Obligations Authority	Reported Expenditures Per Closeout	Inter-title Transfers Per FSRs	Expenditures Including Transfers (Computed)
FY 97 IIB	\$ 150,622,655	\$150,622,654	\$(25,564,865)	\$ 125,057,789
PY 97 IIA,C & III F	402,235,520	402,051,647	25,564,865	427,616,512
PY 97 III EDWAA-D	74,212,835	74,212,835	0	74,212,835
PY 97 III DCAP	2,388,395	2,388,395	0	2,388,395
FY 98 IIB	140,130,051	140,126,790	(26,449,188)	113,677,602
PY 98 II & III-F	402,938,292	401,183,582	26,449,188	427,632,770
PY 98 III EDWAA	22,250,000	19,418,579	0	19,418,579
PY 99 IIB & IIC	162,913,181	143,861,125	4,774,518	148,635,643
PY 99 IIA & IIIF	405,954,295	336,751,294	(4,774,518)	331,976,776
PY 99 III EDWAA	<u>20,475,694</u>	<u>8,694,111</u>	<u>0</u>	<u>8,694,111</u>
Total	<u>\$1,784,120,918</u>	<u>\$1,679,311,012</u>	<u>\$ 0</u>	<u>\$1,679,311,012</u>

2. Determine if the JTPA grants awarded to the State were closed on a timely basis in accordance with ETA instructions.

The State of California submitted a request for extension for its closeout package through June 30, 2001, which was approved by ETA. The closeout was submitted to ETA on June 29, 2001.

3. Inspect the closeout information reported to ETA, and determine if the information was reasonable in comparison with data previously reported on final FSRs.

The State submitted final FSRs with the closeout package; consequently, the FSRs and the closeout were consistent. As an alternative procedure, we inspected the JTPA reconciliation worksheet prepared by ETA which identified the final cost entries required to be recorded in the DOL’s general ledger. This worksheet did not identify significant adjustments to previously recorded grant costs. Accordingly, the amounts reported on the closeout package are considered to be reasonable based on amounts previously reported to ETA.

4. Determine if amounts reported on final cost reports or on the closeout package were supported by the State’s accounting records.

We compared the JTPA expenditures reported to the DOL on the closeout package to expenditures recorded in the State’s accounting records, and found that the amounts reported reconciled to the State’s accounting records.

5. Select a sample of eight final closeout reports submitted by subrecipients to the State, and determine if the subrecipients’ final JTPA expenditures were accurately recorded in the State’s accounting records.

We obtained closeout reports submitted to the State by eight subrecipients, and compared the final expenditures reflected on the closeout reports to expenditures recorded in the State’s accounting records. In all cases, the final subrecipient expenditures were accurately recorded in the State’s accounting records.

6. Obtain the State’s single audit reports submitted for the two most recent fiscal years available, and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards. Determine if these funds were tested as a major program, in accordance with single audit requirements.

For reasons discussed in Item 7. below, the State did not prepare a Schedule of Expenditures of Federal Awards in accordance with OMB A-133 requirements. Rather, the schedule included in the single audit reports was a Schedule of Federal Assistance, which reflected cash received by Federal program. We obtained the State’s single audit reports for SFY 2000 and SFY 1999, and identified the total JTPA cash receipts reported on the Schedule of Federal Assistance, \$582.2 million and \$613.8 million, respectively. The JTPA program cluster was listed as a major program for both fiscal years.

7. Determine if the single audit reports identified reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.

The single audit report for SFY 2000 contained two findings that were not fully resolved, as follows:

- A. Finding 2000-12-1 stated that: “Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule beginning on page 119 [Schedule of Federal Assistance] shows total receipts, rather than expenditures, by program”. This problem was initially reported in SFY 1996.
- B. Finding 2000-2-2 stated that: “EDD [Employment Development Department] lacked documentation supporting some of its payroll and operating costs allocated

to federal programs.” The finding goes on to state that allocations to federal programs were “based on estimates of the time staff spend administering the various federal programs instead of using actual time worked...Furthermore, EDD could not demonstrate that it revised the percentages quarterly to reflect more current circumstances, nor could it show it adjusted charges to federal programs to reflect actual activity.” This finding was originally reported in SFY 1999.

8. Obtain the final cost reports submitted by two subrecipients and determine if the amounts reported were supported by the subrecipients’ accounting records.

We visited two subrecipients, the San Diego Workforce Partnership, Inc. and the City of Los Angeles. For each subrecipient, we compared the final JTPA expenditures reported to the State to expenditures recorded in the subrecipients’ accounting systems, and found that the amounts reconciled.

9. Obtain the subrecipients’ single audit reports for SFY 1999 and SFY 2000 and identify the JTPA expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA). Determine if the amounts agree or were reconciled by the single auditors to the expenditures recorded in the accounting records.

We obtained the single audit reports for the years required and for both subrecipients visited, and identified the JTPA expenditures reported on the SEFA. We compared the SEFA expenditures to expenditures recorded in the subrecipients’ accounting records, and found that the amounts reconciled.

10. Inspect the single audit reports submitted for the subrecipients and determine if there were reportable conditions, material weaknesses, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.

We obtained the single audit reports for the subrecipients visited, and determined that the audit reports did not identify any reportable conditions, instances of nocompliance, report qualifications or other audit issues which pertained to the JTPA program.

EXHIBIT I

**THE COMPLETE TEXT OF
CALIFORNIA'S RESPONSE TO THE DRAFT
AGREED-UPON PROCEDURES REPORT**

Following this title page is the complete text of California's response to our agreed-upon procedures report, issued to them on February 13, 2003.



Gray Davis, Governor
Michael Bernick, Director

78:169

March 10, 2003

Mr. Robert R. Wallace
Regional Inspector General for Audit
U.S. Department of Labor – OIG
61 Forsyth Street, S.W., Room 6T20
Atlanta, GA 30303-3104

Dear Mr. Wallace:

Below is the California Employment Development Department's (EDD) response to the Department of Labor, Office of Inspector General, draft report for the Evaluation of Grant Closeout Practices Applied to Job Training Partnership Act (JTPA) Grants. We are only responding to the procedures and findings where a weakness was noted.

7. Determine if the single audit reports identified reportable conditions, material weakness, report qualifications, or any other audit issues pertaining to JTPA grants that remain unresolved.

The single audit report for State Fiscal Year 2000 contained two findings that were not fully resolved:

Finding 2000-12-1: Because of limitations in its automated accounting systems, the State has not complied with the provision of Office of Management and Budget Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule beginning on page 119 (Schedule of Federal Assistance) shows total receipts, rather than expenditures, by program.

EDD's Response:

This is a statewide issue that the auditors discussed with the Department of Finance, which will address this issue in future system enhancements.



Mr. Robert Wallace
March 10, 2003
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Finding 2000-2-2: The EDD lacked documentation supporting some of its payroll and operating costs allocated to federal programs.

The finding goes on to state that allocations to federal programs were:

...based on estimates of the time staff spend administering the various federal programs instead of using actual time worked...Furthermore, EDD could not demonstrate that it revised the percentages quarterly to reflect more current circumstances, nor could it show it adjusted charges to federal programs to reflect actual activity.

EDD's Response:

The EDD considers the costs charged to allocation codes to be direct charges and, therefore, are actual. All costs are reviewed and, if the costs charged do not reflect actual, an adjustment is made. The allocation code percentages are reviewed and revised when a business process change necessitates it. No adjustments were necessary to the JTPA costs reported on the closeout.

If you have any questions regarding this response, please contact Mr. Dennis Lloyd, Chief, Audit and Evaluation Division, at (916) 654-7000.

Sincerely,



MICHAEL S. BERNICK
Director

cc: Stephen J. Smith, LWDA, C-50